

BILL # HB 2457

TITLE: EORP; surviving spouse pensions

SPONSOR: Burns J.

STATUS: As Introduced

REQUESTED BY: House

PREPARED BY: Eric Jorgensen

FISCAL ANALYSIS

Description

The bill increases the pension for surviving spouses of members of the Elected Officials' Retirement Plan (EORP) from 75% to 80% of the deceased member's pension.

Estimated Impact

This bill has an estimated annual General Fund cost of \$79,800. This cost represents both the ongoing cost of the benefit increase, as well as payments on the unfunded liability. Because the employee contribution is statutorily set at 7.0%, the entire cost of the benefit increase is born by the employer.

Analysis

EORP is a retirement plan administered by the Public Safety Personnel Retirement System. All elected state or county officials and judges are eligible to participate in the plan, as well as elected officials of member cities. It is a defined benefit system and as such, the contribution rate equals the cost of providing the contracted benefits to retirees. Increased benefits result in an increased contribution rate. In EORP, this contribution rate is split between employee and employer, with the employee paying 7% of their salaries and the employer paying all amounts above 7%. For FY 2006, the combined contribution rate is set at 20%.

Currently, when a member of EORP dies, a surviving spouse is entitled to receive a pension equal to 75% of the member's pension. HB 2457 would increase the surviving spouse's pension to 80% of the member's pension. As this bill would provide additional benefits, it would cause an increase in the contribution rate. For state employers the rate would rise from 13.0% to 13.5%.

Contribution rates have two components. The first component is the normal cost, which is the permanent cost associated with providing the benefit. The second component is the unfunded liability. Unfunded liability is created when new benefits are applied retroactively, and represents the cost of providing benefits to recipients who did not pay for them as part of the normal cost. Unfunded liability is generally paid over time (in EORP it is a 20 year period).

The total rate increase is 0.5% or 50 basis points. Of the increase, 15 basis points are for the normal cost. The remaining 35 basis points pay the unfunded liability of \$17.8 million created by the bill. This cost associated with the unfunded liability is expected to continue for 20 years. JLBC Staff estimates that a 50 basis point increase will cost the General Fund approximately \$79,800 annually. Because the cost is expressed as a percent of salaries, the total cost will rise as the salary base increases.

The Legislature could either account for this cost in FY 2006, when the liability is initially incurred, or begin paying the additional costs in FY 2008 when the new rate would take effect.

Local Government Impact

The bill has an estimated annual local government cost of \$175,000. This cost represents local employer contributions and will rise with any salary base increase.